EXHIBIT C

Condensed Transcript
of the Testimony of

Bernard Madoff

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P&S Associates, General Partnership, et al. v. Jacob, et al.

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Q. Okay. And you mentioned it was sometime after that that the Ponzi scheme started and where trades were not being effectuated? Yes?
A. Uh-huh.
Q. And when was --
MR. WOODFIELD: Remember, she needs audible answers.
THE WITNESS: Oh, yes.
BY MR. SAMUELS:
Q. And -- and when was that, and what caused that to happen?
A. Okay. You're -- you're going to have to bear with me when I give you this little bit of history, which everyone seems to always want, but --
Q. Well, we wouldn't want to come here and not get that. So --
A. Right.
MR. WOODFIELD: I'd trade it for heat.
THE WITNESS: The -- I had made -- I had -- I had four prime big clients; Jeffry Picower, Norman Levy, Carl Shapiro and Stanley Chais. Commonly referred to as the big four in various books that have been written about this thing.
These were clients that I had starting

in the 1960s, you know, and so on. And I had -- I had -- they were -- outside of Picower, who was about, I think, a year or two younger than me, the others were, you know -- you know, were substantially older gentlemen.

All of them were -- were considered wealthy. And I traded for them over the -- starting in the '60s and going right on through and made them a great deal of money.

They were all -- they were wealthy on their own. They were certainly all multimillionaires when they opened accounts with me.

And I traded primarily arbitrage type of -- of trading for them over the years, and were -- made a huge amount of, you know, money for them doing arbitrage.

In 1980 they -- what happened was they were -- they were -- prior to 1980 they were using silver straddles through basically Bear Stearns, E.F. Hutton and -- and Merrill Lynch to convert short-term trading gains into long-term trading gains.

BY MR. SAMUELS:

Q. What is a silver straddle?

A. Silver straddle -- straddle is where -- it was a tax shelter type of an arrangement, where you bought and sold contracts in silver and other commodities.

Q. Okay.

A. It was a very common tax shelter strategy that was sold by the major firms to clients to convert short-term trading gains into long-term trading gains. I never did any of that. I wasn't -- I wasn't equipped to handle that. I never traded in commodities.

The -- it was a -- but it was a very popular tax shelter. You know, similar to like real estate shelters, but this was with commodities. And these four clients were doing these -- this trading through basically Bear Stearns and E.F. Hutton.

The -- the IRS started to be uncomfortable with these types of silver straddles as a way of converting short-term gains into long-term gains, and they started to change the rules on whether you could successfully use those straddles.

The -- so these four clients of mine were using these straddles through those firms to convert the short-term gains they were making with me in arbitrage transactions, which were yielding pretty

much at the time, as I say, around, you know, 15 to 20 percent returns.

That's -- that's what arbitrage trading basically yielded for everybody. Not only with me. With basically, you know, throughout Wall Street.

So when everybody started to get nervous about using these straddles and being challenged by the IRS, which was challenging -- starting to challenge them in tax court, everybody was frantically looking around for ways of -- of converting short-term gains to long-term gains, because the tax brackets were -- were very high at that time.

So these four clients of mine were asking me, you know, is there any other type of trading that they could do to, you know, generate long-term gains, rather than -- than short-term gains.

Q. And what timeframe are we at now?

A. This was 1980.

Q. Still 1980. Okay.

A. They were doing that prior to 1980, but 1980 is when the IRS was really starting to come down and challenge these straddles, you know, all over Wall Street.

Now, at that same time, in 1980, I was doing business -- I had met some French investors in Paris

that came to me with this proposition. Mitterrand, for those of you that know, Mitterrand came into France in 19 -- in -- in 1980 as president, and he was basically a socialist.

And to -- to the point where people thought he was -- you know, he was going to turn the country into -- into communism. What he did was he started to nationalize the -- the banks in France and also, you know, the industries in France.

As a matter of fact, he -- he nationalized the Rothschild Bank. Now, but what he also did at that time, in 1980, is he -- France had currency controls, which meant that French citizens could not own anything but French francs.

They couldn't -- they couldn't own other currencies, other than French francs, and they couldn't take French francs -- they couldn't take French francs out of the country.

So they -- what -- what -- now, I'll also say that most foreigners never wanted to keep all of their assets in -- in Europe, in -- in the home country, because they were always worried about, you know, that -- being nationalized or currency -- people and countries taking their money.

They all had accounts in Switzerland, in,

you know, Luxembourg, and they always had their assets out of the country. That was very common. But, Mitterrand, when he -- in 1980, when he -- when he did come in, he got everybody in Paris -- and France was sort of hysterical.

I had a French client by the name of Albert Igoin, who was a very wealthy French industrialist and a banker and was a client of Goldman Sachs at the time, came to me through a number of Swiss bankers that heard about that I was -- I was --

At that time I was one of the largest convertible bond arbiters on Wall Street. I mean, I had made markets on all of the convertible bonds and was doing a big business in -- in convertible securities by 1980.

I flew over to -- to Paris and met with this Albert Igoin, and he basically -- he came to me with a proposition through -- with this bank in Zurich, Swiss bank in Zurich, and said to me he wanted to do a -- a strategy -- an arbitrage strategy that worked the following way.

There's a point to this story, by the way. The -- you -- in France you could -- you had the ability to buy dollars, if you were buying the dollars to pay for U.S. securities.

In other words, you could -- the exception they made to people that wanted to sell French francs and purchase dollars was if the purchasing of the dollars was in order to pay for U.S. securities.

So what -- what wealthy French people did was they went ahead, and they opened an account, which had to be done through a French bank. It couldn't be done through a U.S. bank.

You would -- they would go out and buy, let's say, the General Motors. And in order to pay for the General Motors, which settled in dollars, they would sell French francs and change it into U.S. dollars, and then pay for the U.S. securities with dollars.

And, in fact, by owning now General Motors, they owned dollars. All right. They sold their franc. So they were out of the franc, which they were -- which was being devalued when Mitterrand came in, and they went into -- they went into dollar-based U.S. securities.

So the problem with that is that, the good news was you were out of the French franc, and now you owned dollars. And if the dollar stayed stable, you were okay.

Whereas, the franc was -- was depreciating

rapidly at the time, but, of course, you owned General Motors. So you were at risk to the U.S. stockmarket.

All right. So what firms like Goldman Sachs and other arbitrage -- arbitrage firms in Wall Street were doing was you could buy a portfolio of U.S. stocks, and then you could hedge that some way, so that that portfolio was sort of neutral, but -- but in a sense you owned dollars.

So this -- this Frenchman and the banks said to me, look, you are supposed to be the bright young guy on Wall Street that -- that knows how to hedge better than most people.

Will you, you know, be willing to take us on as clients, buy portfolios of U.S. securities for us and hedge it some way that you can just make the portfolio sort of neutral?

We're not interested in necessarily making money doing the arbitrage. We just want to be able to hedge the U.S. portfolio of stocks, so that we have -- take the market risk out, and we'll -- all we'll -- we want to do is be able to have the dollar assets now in the portfolio.

So I said that was no big deal for me to do, you know. It was relatively easy to -- to hedge a portfolio of U.S. securities. There were various ways

you can hedge it.

You can do what's known as pass trading, where you buy General Motors, and you short Ford, and so on. You can do all sorts of arbitrage trading, without even -- you know, and then you can use options, you know, doing various covered rights and all sorts of different things. It was --

So they said to me, okay. If you can do that -- and they were doing it at the time through Goldman Sachs and Merrill Lynch and other firms like that, but they came to me, and they said that because of my reputation at that time doing convertible bonds and doing arbitrage, and I was this nice Jewish boy, which they liked, and they said to me, fine. You know, you do this. We'll -- we'll open up accounts for you.

So I agreed to do this, and so I now had -- and I had been doing this for -- I started doing this actually -- this type of trading, you know, really significantly in the late '60s into the '70s. So by the time they came to me in 19 -- in 1980, I had this substantial reputation at the time.

Now, at this same time I had these four U.S. clients, Shapiro, Levy, Picower, you know, wanting to be able to -- to convert short-term gains into

long-term gains.

All right. Now, the only way to do that was to be able to buy a portfolio of stocks, you know, similar to what the French people wanted to do, and to hedge that portfolio with, you know, doing all sorts of arbitrage transactions.

The only key -- the key to that was that the only way you're going to get long-term gains is for the market to go up. So I said to them, okay. Look, you guys are now -- you don't want to use silver straddles anymore. So that game is over.

You can't convert long-term -- short-term gains into long-term gains. The only strategy that's available that will stand up with the IRS is to buy stocks and hope they go up and hold them for at least one year, you know, and then you're going to get a long-term gain, as opposed to doing the convertible bond arbitrage transactions, which were all --

Q. Short term.

A. -- taxed with short-term gains. I said, I can't guarantee you that the stockmarket is going to go up. No one can -- can guarantee you that for a year. I said --

I happened to be bullish at the time in 1980, because interest rates were -- what? What?

Twenty percent? They had to start, you know, coming lower.

But to make 20 percent gains in the stockmarket was not that difficult. As I say, you could have -- you just could have bought bonds and gotten 20 percent returns.

I know it's hard for you to -- to -- to understand that now, in today's environment, but in 1980 -- you can check -- that's -- that was what interest rates were.

So, I said, if you want to do that, forget about real estate tax shelters, forget about the commodity straddles, because the tax -- the IRS wasn't going to do that.

I said, you have to be able to buy a portfolio of stocks and hope that they go up over the next year. I said -- so they said, well, that's great. We like that, but we don't want to take the -- the market risk. How can we hedge that?

I said, you can hedge. You can do, you know, hedges, but you -- you have to do certain types of hedges. You have to -- for it to stand up tax-wise, you have to be able to have some degree of risk, you know, in the portfolio, because that was why the silver straddles were being challenged, because

they were -- there was always no risk involved in it. It was a sham transaction.

So they said, okay. Fine. Let's -- these four clients decided, let's go ahead and do that. So I went about and started to put on these portfolios of stocks for these clients.

And, of course, I also had these French clients, who were looking to do a similar type of strategy, but not exactly. So I had a huge liquidity pool of clients that had these -- that had big portfolios of stocks. It was like, you know, a dream in heaven for a firm to have contra-side transactions like this.

Well, from 1980 through 1987 the market went on a tear, and you had this bull market that kept on going up, and the portfolio of Picower, Levy and Shapiro had an enormous run.

Now, in order for everything to work properly when I started to do this in 1980, I said, okay. Look, I can put you together with these foreign clients, these French clients. They can be the other sides of these transactions.

It was -- you know, I said, however, there has to be an agreement between the parties that they won't -- you will not unwind the transactions

prematurely, because the -- the key with the Frenchmen were that they -- they had to know that -- that -- that their portfolios were going to be -- stay in place, that I wasn't going to force them to liquidate the portfolio prematurely.

All right. Now, the -- my relationship with these other clients was, I said, okay. Fine. You want to do that. I'll put you all together, you know. You know, they'll -- they'll provide the liquidity.

They'll sell you -- you sell them the stock that they need on their portfolio. They'll sell you the stock in their portfolio. I'll be the clearinghouse for the whole transaction, I said, but everybody has to agree that we're not going to unwind it until all four -- all -- both sides agree to that.

Now, that -- that was an arm's length agreement, and everybody was perfectly happy to do this, because my relationship was such, it was like one big family, you know.

So from 1980 to 1987 everything went unbelievably well. Everybody made money. As a matter of fact, Picard, when they came down here, looked at the returns that Picower and all these guys had made, and he said, you know, there's nine billion dollars worth of profits in Picower's account alone.

They -- you know, they looked at that, and they said, how is that possible? And I said -- and I -- so I -- I laid out to them, I said, okay. I said, you -- it sounds like a huge amount of money, but you're talking about from 1980 to 2008. That's a lot of years.

I said, if you -- if you -- if you look at the returns, you know, they were making, and they were making like -- you know, the market was moving at like 18, 20 percent return.

You know, you compound that every year, because nobody was -- nobody was unwinding anything. I said, it wasn't as great as what you would think. And there were gains, and there were losses, but the net returns were -- were substantial for everybody.

Now, it comes 1987. The market starts to crash. Obviously, we had the crash of 1987. So now all of a sudden Picower and Shapiro basically go into a panic, and they say, listen, we've made -- you've made us all billionaires.

This has all been documented that they -- this -- this was real money. Even Picard doesn't doubt for a minute that -- that this money was generated.

All right. They said -- they said, we -- we

want to sell. We want to unwind the transaction. I said, wait a minute. We all agreed that we can't unwind these transactions. I can't sell the -- the stock, you know, at this -- you know, now, because the French people don't want to unwind yet.

So there was a lot of discussion made, and they were -- Shapiro and Picower were thoroughly convinced that the market was going to go down, and they were going to now lose all their long-term gains.

They weren't going to -- they -- they had them hedged. So they weren't going to come out with a net loss, but if the market went down, they would -- they would give back the gains on the long side, but they would make it on the short side, but the short side was taxed at short-term capital gains.

So they would have done all right economically, but they would have lost -- lost the advantage of the long-term gain, which was substantial.

I said, you can't sell out yet. They said, well, we want to sell out yet. I said, listen, you're violating the agreement that we had, you know. You're going to really screw up my relationship with these French clients, which were very substantial, and you're going to ruin your relationship with me, you

know.

I -- I really don't want you to sell. Now, I couldn't force them not to sell. I mean, it was their stock. If they wanted to sell, they could sell, but they were -- these were people who were like, you know, my relatives. They were like -- the relationship we had, which has been, you know, reported on all over the place, was a very special relationship.

So they said to me, look, okay. I'll tell you what we'll do. You take over the short side of the transaction for -- for us. That way your French clients will be fine. You don't have to unwind their side of the transaction.

You take over the short positions, you know, for us. And we'll hold you harmless, you know. We'll -- you know, we'll -- you know, we'll be responsible if there's any loss on the short side. Just sell the long side out for us. Liquidate the long positions. Let us take our long-term gains, you know, and --

You know, I said, wait a minute. You're going to have all these huge long-term gains, and you're not taking the short side. So your gains are going to be enormous, you know, but now there's going

to be -- there's substantial loses on the short side.

They said, don't worry. We'll be responsible for that. And we actually signed agreements, you know, hold harmless agreements, which actually were drawn up by Pricewaterhouse. Pricewaterhouse was a big client of mine, and they were -- they were the accountants for -- for Shapiro.

All right. So we had these agreements that they would hold me harmless for any loss that occurred on the short side. They were convinced there wasn't going to be any loses, because they thought the market was finished. It was going to go down, and the short positions would be gains. It wouldn't be a problem.

So, you know, I agree to do this stupidly. I -- the biggest mistake I made was to agree to this transaction.

Now, my choice was I could have litigated with them, but that would have been the end of my relationship with them. It would have been the end of my relationship with the French clients. It would have been a total disaster.

All right. So I agreed to take over these positions, and I figured I had these hold harmless agreements with them. And, you know, the partner from Pricewaterhouse, who was one of the senior partners,

said to me, don't worry. You know, they'll -- they'll never lay down on these hold harmless agreements, because you're worth too much money to everybody, you know, for them to screw up the relationship with you.

And they -- they have -- you know -- you know, they're billionaires. You know, you made them. They're -- they're going to stand by this. So I said, you know what? I agree with you, but they're -- they're older guys.

I mean, Shapiro -- you know, I said -- and their families were involved, and they -- the families had, you know, accounts with me. I said, put me in your will. So I became the executor of all of their estates, and the families all were aware of -- of this arrangement.

And what happened was, of course, the market recovered from this crash in '87. They had taken their gains. Everybody -- you know, Picower had nine billion dollars, you know, of gains in there. Shapiro also had billions of dollars. Levy had billions of dollars.

But the really primary culprit was Picower and Shapiro. Levy and Chais, you know, were not really the ones pushing, but I had to make the agreement with all four of us, because all four of us

made the original agreement. So I had to treat everybody -- everybody the same.

The -- it comes actually in 1992, the -- when the -- by now the market had -- you know, had recovered from the -- through the '87 crash. And Picower tells me that, you know, he's lost a lot of money with Goldman Sachs, you know, by being short the market, which, of course, you know, I wasn't aware of the fact that he was doing this, but he had made so much money with me he figured, you know, he started getting screwed up with -- with Goldman. Goldman started to lose a lot of money for him.

Q. He could have just kept your short positions instead; right?

A. They -- well, the market went up, so the short positions --

Q. Right.

A. -- were -- you know, they were -- they were losing money, you know, on that, and they were responsible for that.

To make a long story short, I started to worry that now I was going to -- I was going to be -- have a problem with that. They were not going to honor their -- their gains.

They both started to -- to whine. Primarily

it was Picower, was the real culprit. Shapiro, as I said, also, but not to the same extent.

At this -- I decided at that time really it was -- in '92, after this thing when I took on these clients, and I said, okay. Now I'm going to have -- you know, I'm going to have retail clients, you know, like I did from Avellino & Bienes.

So I started to -- I was -- I had also at that time developed a strategy called the split-strike conversion strategy. All right. That's a strategy that you buy a -- I don't know how familiar you are with covered rights, but you -- you buy a -- a stock, and you sell an option against it, and you take --

It's an arbitrage strategy, only it's using options. I had developed what's known as this portfolio, where, instead of buying General Motors and selling a General Motors' call, you bought a portfolio of, you know, 15 stocks, and you sell 15 options against it.

And that way you're -- rather -- you're not relying just upon one stock going up, but you're relying on the market going up. And then I came up with the idea of putting a put wrapper on it, which means you buy a put, which protects it.

So it's a covered right with a put wrapper,

which -- which gives you basically a limited -- a limited risk arbitrage strategy.

The -- I was solicited by a lot of foreign clients because of my success with these French people. I had a lot of foreigners come to me and say, look, why don't you start a hedge fund, and we'll -- we'll supply money for you to do this split-strike strategy.

I said, I don't want to be in the hedge fund business. I don't want to start having -- dealing with clients a lot, I said. So they said, well, fine. We'll -- we'll -- we'll form hedge funds ourselves. We'll deal with it, the clients.

You just -- you just handle the hedge fund itself. You just execute the trades for us. So I started taking in money from foreign hedge funds, like Fairfield and so on. And that started really in -- in 1995.

I took all of these hedge funds in, and what -- in order to keep the hedge funds happy -- and the hedge funds had a reputation of being hot-money clients.

In other words, so what they would do is as long as you made money for them they were your clients. You have one bad year, and the money was

called in. They'd want to disappear.

So the hedge funds came to me, and they said, look, you know what, if you go ahead and you promise that you will not return the money, you commit to us, that we'll give you the money, you invest it for the hedge fund, but we want to know that, you know, you're going to -- you're going to keep the money working for us, you know, in this strategy.

And they were very enamored by this split-strike strategy, which was really -- you know, it was a strategy that, as far as I was concerned, was, you know, a great strategy to use.

The -- it started to grow, and I started to do this strategy, but the market went into a funck. And it started -- it got flat. And all of a sudden I didn't have the volatility that I needed to do the split-strike strategy.

And my problem is that I -- I made the decision -- the other major mistake was that I would short the strategy for them, put the money into treasury bills, which were at that time earning two and a half percent return, and short the strategy, which was making 12 percent return for the clients.

And I would be losing ten percent, but I thought that was only going to be a short-term, you

know, play. That I would, you know, do this maybe for two or three months, the market would turn and so on, but the market just kept on dragging itself.

We had the Gulf War, you know. There was just -- the market just -- you know, in the '90s it just wasn't -- didn't do anything. We had the -- the bond market collapsed. You had the -- in '94 Goldman, for example, almost got wiped out.

In '94 in the bond market Picower told me he -- that Goldman destroyed him, you know, in that -- in that market. So I was sitting in a situation that I thought the hold harmless agreements weren't going to work out properly.

I had taken on this money from these foreign hedge funds, and I was starting to short it for them. And, again, shorting was no big deal. As a market-maker you shorted all of the time. That was our business.

So to short clients the money, you know, I do that all the time. I mean, that's every -- not only me. Every market-maker, every investment banker short stocks their clients. You know, it's not illegal. You know, it's -- as a matter of fact, as I said earlier, you're obligated to go short at times.

Without boring you with all of the details,

which I've already done, you know, for you, and probably lost you on all of this, you know, which I can understand, that's what created my whole problem.

All right. Now, to -- to reestablish a certain amount of credibility after -- after all this --

Q. So is that the point in time when you started taking money in and not executing trades?

A. Right. That's when this whole thing started to -- to -- to blow up.

Now, when I -- I realized -- by 1998 I realized that I was dead. I realized that there was no way I was ever going to recover from any of this, you know.

And how I agreed to continue to go through this charade, you know, knowing that in -- starting in '98 that I was -- you know, I continued it for another ten years.

I -- after, you know, six years of seeing a psychiatrist -- psychologist in his place, trying to figure out how I was able to keep everything together and not let anybody know what was going on, you know, other than myself.

My sons didn't realize it, because they ran a whole different side of the business. My brother

I had called Ike Sorkin, my lawyer, and said to him, I got to make an appointment with you. I got to come and meet with you.

He had no idea what I was talking about. I had decided that I was just going to, you know, throw in the towel. I called up Jeffry Picower and Stan -- and Carl Shapiro and said to them, look, I'm going out of business. My business is blown up.

I said, you guys owe me money, and I want the money back, you know. Picower was -- you know, said, well, you know, I don't have it all. I can't -- you know, I got killed at Goldman Sachs.

I said, Jeffry, you know, I know that you have the money there, you know. I said, Goldman told me that you got -- you know, you got -- you got -- you're worth nine billion dollars. I said, I want, you know, seven billion back.

You know that's what you're -- that's what you're on the hook for, you know, for me, I said. And, as it turns out, I said, I'm never going to be able to make all of my clients whole on the money they think they made, but the principal, you know, I can cover, because the principal -- my -- my --

My U.S. clients were only on the hook five million -- five billion dollars. That was what my

they were doing. Although, Frank did. DiPascali.

So I called up Jeffry, and I said, you've got to give the money back. And Bill Zabel, who was his attorney, another goniff, you know, said, Jeffry can give back two and a half billion dollars.

I said, no, no. He's not giving back two and a half billion dollars of seven billion. Now, he said, no, no, don't do it. Finally --

Q. When is this conversation taking --

A. This is --

Q. -- place?

A. This is while I was out on bail.

Q. Okay.

A. You know, the fact that Jeffry Picower had a heart attack and drowned in his pool, you can congratulate me on that. He had already had four bypasses before this, you know.

But I said to him, Jeffry, if you don't give the money back, Barbara is going to jail, who is his wife. I said, your -- you know, your other accountant is -- you know, I said, you'd -- you got to give the money back.

Forget about what Bill Zabel is telling you. Zabel -- Zabel himself will be lucky to get out, because he was on the board with me with the Picower